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NIE 100-3-56
24 April 1956

~~SECRET~~

NATIONAL INTELLIGENCE ESTIMATE

NUMBER 100-3-56

SINO-SOVIET POLICY AND ITS PROBABLE EFFECTS IN UNDERDEVELOPED AREAS

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DATE 15 Jul 81 6514

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 24 April 1956. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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SINO-SOVIET POLICY AND ITS PROBABLE EFFECTS IN UNDERDEVELOPED AREAS

THE PROBLEM

To define the nature of and probable developments in Sino-Soviet Bloc foreign policy with particular respect to underdeveloped areas;[1] to estimate Bloc capabilities to support a policy of expanding economic relations with these areas; and to estimate the susceptibility of underdeveloped areas to these policies.

CONCLUSIONS

1. The new Sino-Soviet Bloc policy, which has been pushed with increasing vigor since the spring of 1955, marks the emergence of the Bloc as a formidable competitor with the West in the political, economic, and cultural spheres for position and influence among the underdeveloped nations. The Bloc portrays itself as a defender of peace and as a proponent of mutually beneficial relations with the outside world. *(Paras. 11, 36)*

2. A key element of the current Bloc policy has been an unprecedented effort to establish a wide range of economic relations with underdeveloped countries. The Bloc is exploiting two basic conditions in the underdeveloped areas (a) the large extent to which the economic livelihood of most underdeveloped nations depends on the production and export of raw materials and foodstuffs, and (b) the desire of most governments of the underdeveloped countries to accelerate economic development while simultaneously increasing welfare services and consumption. *(Para. 23)*

3. Within the past year, there has been a marked increase in Bloc trade with these areas. The Bloc is offering capital equipment and technical services in exchange for bulk purchases of raw materials and foodstuffs. It also has offered some low interest, medium and long term credits to finance the export of capital goods and arms. *(Para. 26)*

4. We are unable to estimate with precision the extent to which the Bloc will be willing or able to expand its economic dealings with the underdeveloped areas. It has the capability to supply a wide range of capital goods and know-how and has reached a stage of economic development in which the exchange of capital goods for raw materials and foodstuffs

[1] As used herein, "underdeveloped" or "former colonial areas" is intended to encompass Southeast Asia, South Asia, the Middle East, North Africa, Tropical Africa, and Latin America.

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will tend to result in a net economic gain. By 1960, it appears likely that total Bloc trade (including arms) with the underdeveloped countries will be around $2 billion annually (about double the 1955 figure). *(Paras. 26–35)*

5. If Bloc economic programs continue to expand at the present rate and follow the present general pattern of concentration, they will alleviate some of the immediate economic difficulties of a number of underveloped nations, particularly Burma, Afghanistan, Argentina, and Turkey. Bloc trade and credit will probably not facilitate a substantial degree of economic development in any of the underdeveloped countries with the possible exception of Burma and Afghanistan. A number of underdeveloped countries, in which a few activities constitute an important part of their economies, may develop a degree of economic dependence on the Bloc out of proportion to the percentage of their trade with the Bloc. However, the total political effect of the new Bloc policies toward underdeveloped countries is not necessarily proportional to the extent of economic relations with these countries. *(Paras. 41–42)*

6. In general, Bloc tactics are already having important political effects in the Arab-Asian area. The image of the Bloc as a principal proponent of peace and disarmament and as a benefactor of the underdeveloped nations has become credible to many people in this area. Existing neutralist tendencies have been reinforced and several states now aligned with the West have begun to weigh the benefits of a more "independent" posture. The availability of Bloc assistance has led some nations to believe that they are now in a stronger position to bargain with the West for aid. The availability of Bloc aid has contributed to the acerbation of the Arab-Israeli conflict. US concern with the Bloc threat in neutralist areas has led to cries of neglect from Pakistan and the Philippines. Several of the nations aligned with the West have become sufficiently impressed with Bloc protestations of peace to become critical of US emphasis on military aid and have called for increased economic support. Bloc tactics have also contributed to the mounting pressures against the maintenance of Western trade controls. *(Para. 43)*

7. If the Bloc continues its present tactics over the next few years, present political trends in the underdeveloped countries are likely to be accentuated. In particular, the appeal of neutralism will probably grow in Asia and the commitments of Thailand and the Baghdad Pact nations to regional security arrangements will probably be weakened. Issues dividing the West and the Bloc will probably be further blurred in the minds of the leaders of many of the underdeveloped nations. There will probably be less apprehension over the threat of major war or Communism and greater concern over regional and local issues. *(Para. 44)*

8. However, there will still be important limitations on the Bloc's ability to influence or manipulate the policies of the underdeveloped nations. With the possible exception of Afghanistan, trade with the Bloc will probably remain considerably smaller than trade with non-Communist states. Moreover, the experience of the US in the postwar period has demonstrated that close economic relations with the underdeveloped areas can be a source of friction as well as political gain.

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Although the people and leaders of some underdeveloped states may distrust the US more than the USSR, the leaders of even the neutralist states have had to contend with Communist challenges to power and they will be watchful according to their own lights of the consequences of dealing with the Bloc. If the Bloc should make early attempts to exploit the growing economic dependence of Burma, Egypt, or Afghanistan to obtain political actions contrary to the desires or interests of local leaders, these governments would probably react by attempting to reduce or break off their arrangements with the Bloc, particularly if Western nations made known their willingness to assist the nation involved through the readjustment period. These considerations will probably cause the Bloc to proceed with caution and to emphasize efforts to gain the good will and confidence of key indigenous groups and leaders. *(Para. 46)*

9. Weighing general Bloc assets and limitations, we believe that the Bloc's ability to influence developments in the Arab-Asian area is likely to increase significantly over the next few years. By associating itself with these nations on colonial issues, by expanding economic relations, and by exploiting other psychological and political conditions, the Bloc may be able to increase Communist influence and to weaken significantly the role of the West in the area. Although there is no substantial immediate danger that the underdeveloped countries will be drawn formally into the Bloc through these tactics, over the longer term an increasing number of Arab-Asian countries may reach the point, already reached by a few, where their foreign policies parallel or actually support the Bloc on most key issues. In a few cases the way may ultimately be prepared for actual Communist take-overs through coercion or internal subversion. *(Para. 49)*

10. If present Bloc policies are continued, many of the underdeveloped countries will probably come increasingly to regard the USSR and Communist China as acceptable members of the international community. The underdeveloped countries will probably enter into such economic or political relations with the Bloc as appear, on balance, to further their own national interests. Nonetheless, they will continue in varying degrees to be responsive to the West because of long established personal, cultural, military, economic, and political ties. The lasting political effects of the new Bloc policies on underdeveloped countries will depend heavily upon the degree to which the West is genuinely interested in their problems, understands their motives, and responds to their needs. *(Para. 51)*

DISCUSSION

I. THE RECENT EVOLUTION OF SINO-SOVIET POLICY

11. The Sino-Soviet Bloc has sought with increasing vigor and confidence, especially since the spring of 1955, to portray the Bloc as a defender of peace and as a proponent of mutually beneficial political, economic, and cultural relations with the outside world. A wide range of diplomatic and propaganda moves has been aimed at reducing apprehensions of the likelihood of general war, and at disassociating from Bloc policy the stigma of subversive violence, militarism, and aggression which was largely responsible for the con-

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siderable measure of free world unity in the postwar years. The Bloc is also attempting to present the current world struggle as one of peaceful competition between the outmoded and weakening forces of Capitalism and the increasingly strong and "progressive" forces of "Socialism."

12. It has become increasingly evident that the new policy proceeds primarily from a gradual development by the Communist leadership of a basic reappraisal of the world situation. The Communists have apparently concluded that (a) under present circumstances the hazards of major war are so great that military pressure or local aggression which involve significant risks of such a war cannot constitute a part of rational policy, and (b) Free World alliances and the uncommitted areas are more vulnerable to various forms of political and economic inducements than to violence and threats of force. These judgments probably provide the basis for the restatements of doctrine at the 20th Congress of the Soviet Communist Party on the inevitability of war, the role of violence in Communist revolution, and the admissibility of alternative routes to socialism. The likelihood that the conditions on which Communist policies are now based will not fundamentally change in the foreseeable future, plus the pains taken to provide the new policy with adequate doctrinal underpinning, indicate that current Communist tactics are likely to continue for some time to come.

13. Moreover, since the death of Stalin, Soviet leaders have also been reappraising their economic situation. In this reappraisal, they probably recognized that Soviet economic development had reached the stage at which an expansion of trade, especially with underdeveloped areas, would help to meet growing Bloc needs for agricultural and other raw materials. At the same time, they recognized that an expansion of trade could be an effective instrument of the new policy of persuasion.

14. The present phase of Bloc policy is intended to cultivate conditions in the free world which will permit expansion of Communist influence. An initial objective of Bloc leaders is to convince members of the Western alliances that the new Communist policy has eliminated the danger of Communist aggression, thus removing the prime motivation of those alliances. They hope that, thus deprived of their rationale, the alliances will falter in their joint military efforts and ultimately be dissolved. The Communists also hope that their current posture will lessen Western and increase Communist influence in the underdeveloped nations. Current Communist tactics are designed to advance Communist long term objectives without serious risk of major war.

II. BLOC TACTICS IN UNDERDEVELOPED AREAS

15. The underdeveloped areas of the world which are now being wooed by the Communist Bloc contain 40 percent of the world's population and 60 percent of the population outside the Sino-Soviet Bloc. Parts of the area involved rim the southern borders of the Bloc, flank the sea route from Gibraltar to Singapore, and contain important western defense installations. Although the areas produce only a small percentage of the world's industrial output, they account for about 25 percent of world trade. Through trade some of the underdeveloped countries play important roles in the economy of the free world.

16. Although there are wide variations in economic, social, and political conditions within this vast area, the general atmosphere is one of political instability deriving from a complex process of rapid economic and cultural change. Nationalist feeling is intense and reaction against foreign influence or domination is strong. Increasing awareness of social inequalities, poverty, and economic backwardness is causing unrest and ferment, and there is a widespread desire for an increase in the standard of living. In many areas, there are oppressive or weak political regimes which are increasingly incapable of coping with the complex problems confronting them. From these common problems and on the basis of race and geography, a sense of identity has developed among many of these nations and they tend to stand together in blocs on many international issues.

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Political Tactics

17. The Sino-Soviet Bloc is wooing the underdeveloped areas by identifying itself with anticolonial and nationalist aspirations. Nearly all of the underdeveloped countries have at some time in their history come under the domination of one or another of the Western Powers. Even those countries which have been led by experience, ideology, or common interest to align themselves with the West are prone to be suspicious of Western intentions. In contrast, the USSR and Communist China, although hampered in some areas by their past support of armed Communist rebellion, are now free to a considerable degree of the odium of imperialism. The Soviet record of imperialism in the Baltic states, Eastern Europe, and Asia is not well understood in the underdeveloped areas. Only a few of the underdeveloped countries have experienced direct threats from the Bloc and the Bloc's virulent propaganda attacks on Western imperialism have led some of them to believe that relations with the Bloc can act as a counterweight to Western influence or the threat of encroachment.

18. The Sino-Soviet Bloc is attempting to cultivate friendly relations with existing governments, including some formerly labeled as "reactionary" in Communist propaganda, by expressing sympathy with their special national interests. In particular the Bloc has offered support or encouragement to countries that are involved in local conflicts, in struggles for independence, or in irredentist issues, especially where the opposing party is aligned with the West. The Sino-Soviet Bloc has a considerable degree of maneuverability in these situations because, unlike the US, it is free of commitments to the colonial powers, and because the Soviet record of imperialism is not well understood.

19. The Bloc has also intensified its efforts to identify US policy with danger of war and the USSR with the hope of peace; it stresses that present world conditions, particularly the growth of Soviet strength, give prospects of lasting normalization of international relations. Most of the underdeveloped nations have a great fear of major war and they desire to remain aloof from international power struggles and to devote their energies to internal development and local affairs. They tend to be critical of US efforts to extend the area of military cooperation and to be receptive to Bloc protestations of peaceful intent.

20. The Bloc is emphasizing the similarity of its past and present economic problems with those of the underdeveloped areas. The Communists have proclaimed the success of their systems in rapidly transforming their own backward countries into industrial powers through socialist organization and the full mobilization of domestic resources. The appeal of Communist experience is particularly strong in Asia where many members of the educated elite have been conditioned to think along Marxist lines. Furthermore, in many countries the traditions of individual freedom and democratic principles are weak and thus do not serve as an effective barrier to the acceptance of authoritarian systems. Even where the Communist cost in human suffering is recognized, there is a temptation to believe that appropriate elements of the system could be utilized without serious damage to political and human freedom. The private enterprise system tends to be associated with the inequality and exploitation of colonial rule. Throughout most of the area, a large measure of state control of the economy is accepted as both desirable and essential.

21. The Communists are attempting to play down the antidemocratic aspects of their program. By presenting their doctrine as the embodiment of progressive social change, they hope to gain the support of other advocates of social change, particularly the Socialist parties. Their aim is to end the isolation of the Communist parties and to provide a basis for "united fronts" with Socialists and Nationalists.

22. An important element of the Bloc's appeal in the underdeveloped areas is its relative freedom from the taint of discrimination against colored races which is reinforced in some minds by the fact that one of the two major partners in the Bloc is a nonwhite nation. By

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contrast, Western racial barriers in colonial areas and in some parts of the US are bitterly resented by many Asians and Africans.

Economic Tactics

23. A key element of the current Bloc policy has been an unprecedented effort to establish a wide range of economic relations with underdeveloped countries. This economic program has included new and expanded trade, a modest and selective credit program, and a growing emphasis on the training and provision of technicians and advisors. The Bloc is exploiting two basic conditions in the underdeveloped areas (a) the large extent to which the economic livelihood of most underdeveloped nations depends on the production and export of raw materials and foodstuffs, and (b) the desire of most governments of the underdeveloped countries to accelerate economic development while simultaneously increasing welfare services and consumption.

24. The underdeveloped countries, even under the most favorable economic conditions, internally and in world markets, lack the resources to carry through a rapid program of economic development. They generally lack sufficient trained personnel to: (a) plan and integrate a development program; (b) modernize their monetary and fiscal systems to channel internal resources to essential investments; and (c) install and operate modern transport and manufacturing equipment. Few of the underdeveloped countries have sufficient capital resources for the volume of investment which must be made concurrently in all basic sectors of the economy. Such increased investment is essential to break the depressive effects of growing populations and increasing consumer requirements and to provide a margin for additional investment and growth. In particular, their export earning capacity is inadequate to finance imports of capital equipment while maintaining the minimum import of consumer goods necessary to restrict inflationary tendencies and allay popular unrest. Progress in development on the basis of domestic resources alone would at best be slow, even if stern and authoritarian measures were taken to restrict consumption and to channel all available resources into capital investment. In many countries also, there is an unwillingness to take the internal measures necessary to carry out effective economic programs.

25. The underdeveloped countries have not been able to obtain sufficient development capital from the West. Moreover, since 1954 their own capabilities for capital formation have been reduced as a result of the ending of the international boom in the demand for food and some raw materials which followed World War II and which was revived and extended by the Korean War. In particular, agricultural prices are under pressure and exporters' stocks are growing burdensome. Non-Communist markets are unable to absorb all these stocks and some Western countries are in fact burdened with surpluses of the same commodities.

26. The USSR, as the world's second industrial power, and the European Satellites have the capability of supplying a wide range of capital goods and know-how to the underdeveloped areas. Thus, the Bloc is in a strong position to exploit these conditions. Within the last year it has made increasing efforts to promote trade in Southeast Asia, South Asia, the Near East, Africa, and in Latin America. Further, the Bloc is now offering capital equipment in exchange for bulk purchases of raw materials and foodstuffs in selected countries. The Bloc has also offered capital goods and technical services for economic development, as well as arms, on the basis of low-interest medium and long term credits, repayable in local currencies or commodities. The Bloc has demonstrated considerable flexibility in meeting local conditions and has generally shown a willingness to conclude agreements without time consuming negotiations. It has occasionally supported locally popular projects of marginal economic importance. The Bloc has not required expressed political commitments as a condition of trade or credit agreements, but it has suggested in a number of cases that a neutralist position would facilitate beneficial economic relations.

27. From the Bloc point of view, these economic tactics have a rational basis of economic advantage. The exchange of capital

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goods for raw materials and foodstuffs will tend to result in a net economic gain rather than to impose a burden upon the Bloc economy. The costs of capital goods in the Bloc have declined as production has expanded, as skills have developed, and as additional capital investment has been applied. During the same time, however, the costs of food and some raw materials have risen with increasing requirements, and the exhaustion of low-cost production opportunities.

28. In 1954 both the European Satellites and the USSR became for the first time net importers of food, and such imports are likely to continue to expand in view of the high costs of additional production within the Bloc, the growth in population and standards of living, and continuing shift in relative costs in favor of industrial production. The other side of this picture is the emergence of the Satellites as net exporters of capital goods to non-Bloc countries in 1954. Although the Soviet Union is still a substantial net importer of capital goods from non-Bloc countries, its exports of such goods, though still small in volume, have rapidly increased in the last three years. In addition, the total value of Bloc trade with non-Bloc countries has risen from the postwar low of $3 billion in 1953 to an estimated $4.4 billion in 1955.

29. As a result of new trade agreements, increases in quotas under agreements already in force, and credits, the volume of Bloc trade (including arms shipments) with the underdeveloped countries has increased significantly in the past two years.

Sino-Soviet Bloc Trade with Non-Bloc Areas, 1953–1955 [a]

	(Million of current dollars)			(Percentage increases)	
	1953	1954	1955 [b]	1954/53	1955/54
Underdeveloped areas					
Near East & Africa	193	244	310	26	27
Far East [c]	229	244	295	7	21
Latin America	69	252	280	265	11
Subtotal	491	740	885	51	20
Other Non-Bloc					
US & Canada	46	61	83	33	36
Australia & New Zealand	86	88	70	2	-20
Japan	42	72	129	71	79
Hong Kong	245	189	190	-23	0
Western Europe	2,089	2,440	3,023	17	24
Subtotal	2,508	2,850	3,495	14	23
TOTAL	2,999	3,590	4,380	20	22

[a] All data are based on official statistics released by Free World countries. Sino-Soviet Bloc import and export data were extracted directly from Free World export and import data respectively. Ordinarily, Free World export data are presented on an FOB basis and imports on a CIF basis. All figures have been rounded to the nearest million.

[b] Data for 1955 have been partly estimated by annual rating of information available as of 1 March 1956. Figures for the Near East and Africa probably are somewhat low.

[c] Excluding Japan and Hong Kong but including India.

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30. Despite recent increases, the Bloc still has a relatively small share of the total trade of most underdeveloped nations. Only eight of these countries conducted more than five percent of their total trade with the Bloc in 1955.

	Percent of total trade with the Bloc	
	1954	1955 (prelim.)
Burma	.7	5.3
Ceylon	11.9	6.1
Indonesia	1.6	5.2
Pakistan	5.6	6.7
Iran	12.6	12.9
Egypt	9.7	14.1
Turkey	12.	20.
Argentina	8.6	8.6

31. The Bloc's trade with underdeveloped countries will almost certainly show a more substantial gain in 1956 than in 1955. Of particular importance for the short run, Bloc trade will probably increase significantly with those countries which the Bloc has concentrated on as being the most promising initial targets of opportunity, namely, India, Burma, Egypt, Indonesia, Afghanistan, and Turkey. In the case of Burma, the USSR has recently agreed to purchase 400,000[2] tons of rice annually over the next four years or an amount equivalent to about one-sixth of Burma's 1955 total exports. Similar arrangements in lesser amounts with the Satellites and Communist China may raise Burmese trade with the Bloc to about one-third of its total trade. Although the Bloc supplied only seven percent of Egypt's imports in 1955, Bloc purchases accounted for 27 percent of Egypt's exports. Egypt's total trade with the Bloc will probably increase considerably in 1956 as a result of additional Bloc purchases of cotton and the delivery of Bloc goods and arms.

32. In addition, the credits already extended by the Bloc to underdeveloped countries will lead to an increase in Bloc trade with the area. The program of Bloc credits to underdeveloped countries is modest in scope, and totaled about $500 million as of March 1956.[3] Of this total, Egypt (involving primarily arms), Afghanistan, and India received medium and long term credits totaling about $450 million.

[2] In 1955 Burma produced 6.3 million tons of rice and exported 1.6 million tons.

[3] This total excludes Yugoslavia and Finland.

Minimum Known Credits and Possible Credits Extended by the Sino-Soviet Bloc to Underdeveloped Countries, in millions of US $

1 January 1954 – 1 March 1956 [a]

Recipient Areas	USSR	Bloc Excluding USSR	Total Bloc
Middle East			
Turkey	..	7.	7.
Egypt	..	174.7	174.7
Iran	..	1.5	1.5
Jordan	..	0.2	0.2
Syria	..	13.9	13.9
Total		197.3	197.3
South and Southeast Asia			
Afghanistan	106.8	15.	121.8
India	125.0	32.8	157.8
Indonesia	..	7.9	7.9
Total	231.8	55.7	287.5
Latin America			
Argentina	4.	15.	19.
Total	4.	15.	19.
GRAND TOTAL	235.8	268.	503.8 [b]

[a] This table was compiled from Appendix A. Totals represent minimum estimates and do not include projects for which no value estimates are available.

[b] In addition, the Bloc extended $20 million in credits to Finland, $1.6 million to Iceland, and $299 million to Yugoslavia.

At the minimum an additional $325 million in Bloc credit offers are under active consideration in the underdeveloped countries. To date the USSR has concentrated its credits in South and Southeast Asia while the Satellites have taken the lead in extending credits to the Middle East.

33. *Future Trends in Bloc Economic Tactics.* We believe that the Bloc will seek to expand substantially both its credits and its trade with underdeveloped countries, while exerting every effort to live up to commitments made. In so doing the Bloc will seek to develop significant economic relations with a greater number of underdeveloped countries, but will probably continue to weight its efforts quantitatively toward a relatively few countries, particularly those wherein it sees the prospects for greatest political success. The distribution of Bloc trade will also be affected to a lesser degree by growing needs for selected strategic raw materials; for example, bauxite and industrial diamonds.

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34. The Bloc is almost certainly not motivated to undertake foreign economic programs of such magnitude and content as to stimulate substantial economic development in any country except possibly in certain peripheral areas such as Burma and Afghanistan. In the latter countries the Bloc may desire to develop showcase samples of the benefits of close relations with the Bloc. In addition, a number of other factors may have a limiting effect on the scope of the Bloc's economic program in the next few years. In their dealings with some underdeveloped countries, the Bloc will encounter administrative and psychological difficulties. The extension of the Bloc program will also depend to some extent on how successfully the Bloc can compete with Western enterprise and technology in these areas. Moreover, the Bloc will probably wish to avoid over-extending itself in the early stages of the program in view of the political importance it will attach to fulfilling its commitments. Finally, in some cases, the USSR must weigh its economic commitments outside the Bloc against the requirements for economic development within the Bloc.

35. We are unable to estimate with precision the extent to which the Bloc will be willing or able to expand its economic dealings with the underdeveloped areas. By 1960, it appears likely that total Bloc trade (including arms) with the underdeveloped countries will be around $2 billion annually (about double the 1955 figure). To reach such a level would involve a rate of increase about equal to that of total Bloc trade with non-Bloc countries from 1953–1955, and below the 1953–1955 rate of increase with the underdeveloped areas alone. In any event, it is clear that the Bloc will increasingly offer serious and continuing competition to the West as a market and as a source of capital and technical assistance.

III. PROBABLE EFFECTS OF BLOC TACTICS

36. The new Bloc policy marks the emergence of the Bloc as a formidable competitor with the West, in the political, economic, and psychological spheres, for position and influence among many of the underdeveloped nations. The Bloc now presents a posture of peace, an attitude of sympathetic understanding of the needs and aspirations of the underdeveloped areas, and a system of cultural and political values attractive to many of Asia's intellectuals and political elites. It points to the impressive record of Soviet industrial growth as a model for the economic development of backward areas. In addition, the Bloc represents itself as being capable of supplying capital goods, credits, and technical assistance. Although the ultimate objectives of the Bloc remain unchanged, its immediate objectives are probably merely to increase the attractions of neutralism and to expand Bloc influence.

Economic Effects

37. The Bloc has already made significant progress in expanding its economic relations with a number of countries, most notably Burma, India, Egypt, Turkey, and Afghanistan. The reasons for this success have varied from country to country. For instance, Burma was receptive to Bloc orders largely because of its inability to dispose of its large rice surplus in Western markets; India was able to obtain certain capital equipment from the Bloc on more attractive terms than were available in the West; Egypt could not obtain the arms it desired from Western sources; and Afghanistan wanted to bolster its position vis-a-vis Pakistan.

38. The receptivity of other countries to Bloc offers will be conditioned by similar factors. Countries which are aligned with the West or have close economic ties with Western countries or receive substantial aid from the US, will wish to avoid jeopardizing these relations. However, even these countries are likely to increase their trade with the Bloc, particularly if the neutralist states appear to be profiting from increased relations with the Bloc. Turkey and Iran have already done so because of internal economic difficulties and Pakistan, Cambodia, Greece, Thailand, numerous Latin American states, and the Philippines will probably investigate the possibilities for increased trade with the Bloc. In some cases the primary motive will be to increase export markets, but in others the purpose may be to elicit additional support and attention from the US.

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39. Given equal opportunities and credit facilities, there is little desire among underdeveloped countries for Bloc trade in preference to Free World trade. On the contrary, Western trade provides foreign exchange usable in other markets while most deals with the Bloc are on a barter basis. Thus the basic appeal of the Bloc market is as a source of export earnings not available in the Free World which can be used to obtain capital goods from the Bloc. In view of this, receptivity to Bloc trade offers would probably weaken if the Bloc were to re-export major quantities of bulk commodities bought from the underdeveloped countries.

40. However, if the Bloc lives up to its agreements, delivers the goods, and is discreet in its meddling in the internal affairs of other states, most of the underdeveloped countries will increasingly accept Bloc overtures at face value. There will probably be a gradual, and in some cases substantial, increase in the level of normal trade, in dependence on Soviet technicians, and in the extent to which the various countries will be willing to mortgage their futures through long term credit from the Bloc. Moreover, the readiness of neutralist and independent states to purchase arms from the Bloc will probably increase.

41. If the Bloc economic programs should continue to expand at the present rate and follow the present general pattern of concentration, they will alleviate some of the immediate economic difficulties of a number of underdeveloped nations, for example, Burma, Afghanistan, Argentina, and Turkey. In these countries, and possibly several others, Bloc purchases could have a stabilizing effect on export prices, and could assist in maintaining income and employment in key industries. A number of underdeveloped countries, in which a few activities constitute an important part of their economies, may develop a degree of economic dependence on the Bloc out of proportion to the percentage of their trade with the Bloc. At the same time, however, Bloc trade and credit will probably not facilitate a substantial degree of economic development in any of the underdeveloped countries with the possible exception of Burma and Afghanistan. This is so primarily because the magnitude of capital required generally far exceeds that likely to be accumulated on the basis of presently estimated Bloc trade and credits.

Political Effects

42. The total political effect of the new Bloc policies toward underdeveloped countries is not necessarily proportional to the extent of economic relations with these countries. In a few cases (e. g., Turkey) a high proportion of trade with the Bloc may not be accompanied by any substantial shift in orientation and internal politics. However, in other situations the reverse may be true — i. e., although the economic relationship may be small in percentage or quantity terms, the shift in political alignment may be significant.

43. In general, Bloc tactics are already having important political effects in the Arab-Asian area. The image of the Bloc as a principal proponent of peace and disarmament and as a benefactor of the underdeveloped nations has become credible to many people in this area. Existing neutralist tendencies have been reinforced and several states now aligned with the West have begun to weigh the benefits of a more "independent" posture. The availability of Bloc assistance has led some nations to believe that they are now in a stronger position to bargain with the West for aid. The availability of Bloc aid has contributed to the acerbation of the Arab-Israeli conflict. US concern with the Bloc threat in neutralist areas has led to cries of neglect from Pakistan and the Philippines. Several of the nations aligned with the West have become sufficiently impressed with Bloc protestations of peace to become critical of US emphasis on military aid and have called for increased economic support. Bloc tactics have also contributed to the mounting pressures against the maintenance of Western trade controls.

44. If the Bloc continues its present tactics over the next few years, present political trends in the underdeveloped countries are likely to be accentuated. In particular, the appeal of neutralism will probably grow in Asia and the commitments of Thailand and

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the Baghdad Pact nations to regional security arrangements will probably be weakened. Issues dividing the West and the Bloc will probably be further blurred in the minds of the leaders of many of the underdeveloped nations. There will probably be less apprehension over the threat of major war or Communism and greater concern over regional and local issues.

45. The new Bloc diplomacy and its economic programs will provide the Bloc increased opportunities for influencing government officials and intellectual leaders by direct personal contacts. Because socialism is regarded favorably in many underdeveloped countries, especially in Asia, the psychological and ideological effects of Bloc economic policies may be more profound than has been the case with Western aid programs. Although Communism as an open political force is not dangerous in most countries of the area, the postwar generation of young intellectuals may ignore the history of Communism, accept the present line of propaganda, and develop a close sense of identification with Communist China and the USSR. At the same time, the new look in Soviet diplomacy, the denigration of Stalin who has been identified with the excesses of Communism, and Communist overtures to the world socialist movement may help to increase the influence of the local Communist parties. In Indonesia, Syria, and other countries of the Middle East and Africa, the nationalists too frequently feel that they can cooperate with the Communists as long as it suits their purpose and then drop them. The danger lies in the progress which the Communists may make in infiltration of the ranks of the armies, the bureaucracy, and intellectual circles during the period of cooperation.

46. However, there will still be important limitations on the Bloc's ability to influence or manipulate the policies of the underdeveloped nations. With the possible exception of Afghanistan, trade with the Bloc will probably remain considerably smaller than trade with non-Communist states. Moreover, the experience of the US in the postwar period has demonstrated that close economic relations with the underdeveloped areas can be a source of friction as well as political gain. Although the people and leaders of some underdeveloped states may distrust the US more than the USSR, the leaders of even the neutralist states have had to contend with Communist challenges to power and they will be watchful according to their own lights of the consequences of dealing with the Bloc. If the Bloc should make early attempts to exploit the growing economic dependence of Burma, Egypt, or Afghanistan to obtain political actions contrary to the desires or interests of local leaders, these governments would probably react by attempting to reduce or break off their arrangements with the Bloc, particularly if Western nations made known their willingness to assist the nation involved through the readjustment period. These considerations will probably cause the Bloc to proceed with caution and to emphasize efforts to gain the good will and confidence of key indigenous groups and leaders.

47. At the same time, important factors will work against an increase in the strength of domestic Communist movements. Offers of cooperation by local Communists have been rejected by the nationalist movements in North Africa and in Asia and Latin America. The local Communists probably will not be able to escape completely from the distrust surrounding their motives which derives from many instances of open conflict with local nationalists. It is possible that the transition to peaceful, united front tactics in some cases will reduce the vitality of the indigenous Communist parties and subject them to debilitating internal disputes. Moreover, a major part of any credit for economic progress derived from Bloc assistance is likely to be taken by the nationalist, non-Communist governments of the underdeveloped nations. To the extent that there is economic progress, it will tend to alleviate certain chronic grievances habitually exploited by the domestic Communists, and to provide constructive employment for the young intellectuals who in all underdeveloped countries are the most dissatisfied with existing conditions and form the primary target of Communist propaganda.

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48. To the extent that it takes sides in the quarrels of other nations, the Bloc will tend to alienate one side or the other and reduce its influence abroad. The Soviet Union has already found it awkward to take a position in the conflicts between the French and the North Africans. While seeming to favor the Arabs against the Israelis, it has so far refrained from going anything like all the way in doing so. It may find it expedient in the future not to repeat the firm stand it took on Kashmir and Pushtunistan in December. Almost inevitably, as it is drawn deeper into the affairs of other peoples, the Soviet Union will find that it is disappointing at least as many hopes as it is fulfilling.

49. Weighing general Bloc assets and limitations and apart from the major variables discussed below, it seems that the Bloc's ability to influence developments in the Arab-Asian area is likely to increase significantly over the next few years. By associating itself with these nations on colonial issues, by expanding economic relations, and by exploiting other psychological and political conditions, the Bloc may be able to weaken significantly the role of the West in the area. Although there is no substantial immediate danger that the underdeveloped countries will be drawn into the Bloc through these tactics, over the longer term an increasing number of Arab-Asian countries may reach the point, already reached by a few, where their foreign policies parallel or actually support the Bloc on most key issues. In a few cases the way may ultimately be prepared for actual Communist take-overs through coercion or internal subversion.

50. *Effect of a Communist Take-over.* If the Communists were to take-over any underdeveloped country, the effect on over-all Communist influence would vary according to the particular circumstances involved. If a legitimate government were overthrown by violence or subversion, the image of respectability which the Bloc is striving so assiduously to build up would be seriously impaired. This effect would be much less marked in a case where the regime unseated by the Communists was considered a Western puppet or otherwise unrepresentative of nationalist groups, or if Communists came to power by apparently legitimate electoral processes. In time, the reaction of other governments would probably be determined largely by the manner in which the new Communist-dominated regime conducted itself with respect to affairs of interest to the various non-Communist states.

51. *Effects of US and Western Policies.* If present Bloc policies are continued, many of the underdeveloped countries will probably come increasingly to regard the USSR and Communist China as acceptable members of the international community. The underdeveloped countries will probably enter into such economic or political relations with the Bloc as appear, on balance, to further their own national interests. Nonetheless, they will continue in varying degrees to be responsive to the West because of long established personal, cultural, military, economic, and political ties. The lasting political effects of the new Bloc policies on underdeveloped countries will depend heavily upon the degree to which the West is genuinely interested in their problems, understands their motives, and responds to their needs.

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Appendix A

Sino-Soviet Bloc Credits to Non-Bloc Countries

1 January 1954 – 1 March 1956

Recipient	Bloc Country	Projects	Contracts [a]		Offers [a]	
			Known Credits	Possible Credits	Known Credits	Possible Credits
Middle East						
Egypt	Czech.	Arms	140.0 (est)			
		Ceramics factory	1.2			
		100 third class RR cars		3.2 (est)		
		Steel bridge for the Ismailia Canal 335′ long and 98′ wide		U		
		Footgear factory		0.1		
	GDR	Power installations		3.2		
		Construction of shipyard at Alexandria, plans, equipment and technicians being provided		U		
	Hungary	Bridge at Helwan on the Nile; 800 meters long and 12 meters wide; design, construction, and installation		3.0 (est)		
		Seven swing bridges over the Nile; design, construction, and installation		U		
		93 diesel RR engines		4.3		
		100 third class coaches		3.2		
		30 first class coaches		1.4		
		10 trains, 6 units each		8.0 (est)		
		Thermoelectric power, 45,000 KW		5.5		
	USSR	Aswan Dam; designs, equipment, and technicians			200.0 (est)	
		Equipment and technicians for a nuclear physics lab		U		
	Poland	Enamel-ware foundry		1.0 (est)		
		300 RR box cars		0.6 (est)		
Estimated minimum total for Egypt [b]			141.2	33.5	200.0	0.0

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Appendix A (Cont'd)

Recipient	Bloc Country	Projects	Contracts [a]		Offers [a]	
			Known Credits	Possible Credits	Known Credits	Possible Credits
Middle East						
Iran	Czech.	Refrigeration plant; daily capacity of 50 tons		U		
		Plywood factory including power station		U		
		Sugar refinery		1.5 (est)		
	GDR	Equipment for an ice factory		U		
Estimated minimum total for Iran [b]			0.0	1.5	0.0	0.0
Jordan	Poland	Preparation of plans for reconstruction of the Hejaz RR running through Syria, Jordan, and Saudi Arabia		0.2 [c]		
		Reconstruction of the Hejaz RR				22.0 [c] (est)
	Czech.	Textile factory				U
Estimated minimum total for Jordan [b]			0.0	0.2 [d]	0.0	22.0 [d]
Lebanon	Hungary	Stadium		U		
	Czech.	Several installations including plants for ceramics, paper, sugar refining, shoes, and electric power			U	
	GDR	Equipment for cement plant				1.0
	USSR	400 spinning machines				U
		General economic assistance				U
Estimated minimum total for Lebanon [b]			0.0	U	0.0	1.0
Saudi Arabia	GDR	Cement plant				5.0
	Poland	Survey and reconstruction of Hejaz RR				[c] [e]
Estimated minimum total for Saudi Arabia			0.0	0.0	0.0	5.0 [e]
Syria	Czech.	Arms (principally tanks)	6.0			
		Sugar refinery including distillery, power plant, and other auxiliary unit		1.7		
		Two cement plants		4.0 (est)		
		China factory		0.2		
		Construction of Damascus International Airport				10.0
	GDR	Cement plant; 200 tons daily capacity		1.3		

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Appendix A (Cont'd)

Recipient	Bloc Country	Projects	Contracts [a]		Offers [a]	
			Known Credits	Possible Credits	Known Credits	Possible Credits
Middle East						
Syria (Cont'd)	GDR (Cont'd)	Cotton spinning mill; 3,800 spindles; including dye works		0.5 (est)		
		Dry-cell battery plant equipment	U			
		Munitions plant to make 20 mm shells and grenade casings			U	
	Hungary	Three flour mills		U		
	Poland	Preparation of plans for reconstruction of the Hejaz RR running from Damascus (Syria) to Medina (Saudi Arabia) via Ma'an (Jordan)		0.2 [c]		
		Reconstruction of Hejaz RR				22.0 [c] (est)
	USSR	Cement plant; daily capacity of 200 to 300 tons				2.0 (est)
	Czech., USSR, Rumania	Oil refinery; annual capacity of one million tons. Equipment and technicians to be provided. Each has submitted a separate bid.				22.4
Estimated minimum total for Syria [b]			6.0	7.9	0.0	56.4 [d]
Yemen	USSR	Industrial plants and technical assistance				U
Estimated minimum total for Middle East [b]			147.2	43.1	200.0	84.4
South and Southeast Asia						
Afghanistan	USSR	POL storage tanks	1.2			
		Silos, flour mill, bakery	3.5			
		Road paving in Kabul	2.1			
		$100 million credit accepted in Jan 1956 reportedly allocated by Afghan Gov't as follows:				
		Road and bridge construction	30.0			
		Education	5.0			
		Health	8.0			
		Police	12.0			
		Industrial equipment and technical services	25.0			
		Arms	15.0			
		Miscellaneous	5.0			

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Appendix A (Cont'd)

Recipient	Bloc Country	Projects	Contracts [a]		Offers [a]	
			Known Credits	Possible Credits	Known Credits	Possible Credits
South and Southeast Asia						
Afghanistan (Cont'd)	USSR (Cont'd)	Under the 2 Mar '55 agreement, partial utilization of the $100 million loan will include:				
		Construction of 2 hydroelectric stations				
		Three motor repair shops				
		Motor road across the Hindu Kush				
		Irrigation works				
		Physical and chemical laboratory				
		Construction of airfield at Bagrami				
		Reconstruction of airfield at Kabul				
		Preparation of a fertilizer factory				
	Poland	Materials and technicians for improvement of water supply in Kabul and Qandahar				U
	Hungary	Miscellaneous factories, including brick and glass plants				U
	Czech.	Cement plant; capacity of 30,000 to 36,000 tons per year	1.5			
		Miscellaneous industrial projects, including:				
		Slaughter house				
		Dried fruit packing plant	8.5			
		Arms	5.0			
Estimated minimum total for Afghanistan			121.8	0.0	0.0	U
India	USSR	Steel mill at Bhilai; capacity of one million ingot tons per year; USSR made designs and is supplying equipment and technicians	115.0			
		Steel file plant in Calcutta		U		
		Equipment for the petroleum industry over a three-year period		U		
		Expansion of diamond ore processing facilities, ca-				

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Appendix A (Cont'd)

Recipient	Bloc Country	Projects	Contracts [a]		Offers [a]	
			Known Credits	Possible Credits	Known Credits	Possible Credits
South and Southeast Asia						
India (Cont'd)	USSR (Cont'd)	pacity to be 10,000 tons of ore per day		10.0 (est)		
		Expansion of Hindustan aircraft plant				U
		Atomic reactor for research				U
	GDR	Raw film manufacturing plant	6.3			
		Power plant				U
		Sugar refineries				U
		Textile plant				U
		Cement plants				4.0 (est)
		Plywood plant				U
		Sheetmetal plant				U
	Czech.	Forge plant				U
		2,050 RR cars		5.0		
		Camera factory; Czech. providing equipment and technicians		U		
		Cement plant at Cherrapunji, capacity of 400 tons per day		3.0 (est)		
		Hosiery mill; Czech. providing equipment and technicians		U		
		40 locomotives		7.6		
		Suspension bridge and aerial ropeway		4.2		
		Thermal electric power station at Cherrapunji		0.6 (est)		
		Road construction		U		
		Motor repair shop		U		
		Sugar factory		U		
	Czech., GDR	Lignite processing plant				U
	Hungary	153 locomotives		6.0 (est)		
		Wire and cable plant		0.1		
	Czech., Hungary	Punjab hydroelectric project — four 100,000 KW turbine generators				20.0 (est)
	Poland	Equipment and technical assistance in the construction of bridges and ships				U
Estimated minimum total for India [b]			121.3	36.5	0.0	24.0

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Appendix A (Cont'd)

Recipient	Bloc Country	Projects	Contracts [a]		Offers [a]	
			Known Credits	Possible Credits	Known Credits	Possible Credits
South and Southeast Asia						
Indonesia	GDR	Sugar factory; capacity of 2,500 tons of sugar and 1,500 tons of spirits per day	7.9			
		Copra processing plant — equipment only				U
	Rumania	Cement plant; annual capacity of 200,000–300,000 tons			4.0 (est)	
	Rumania, Czech.	Each offered assistance in developing oil fields in No. Sumatra. Rumanian technicians made surveys in late '55 and have offered both equipment and technical assistance				U
	Czech.	Canvas plant		U		
	Hungary	Hydroelectric power plant				U
	Poland, China	Each have offered capital equipment				U
Estimated minimum total for Indonesia [b]			7.9	0.0	4.0	0.0
Estimated minimum total for South and Southeast Asia [b]			251.0	36.5	4.0	24.0
Europe						
Finland	USSR	Gold loan (accepted in Feb. '54)	10.0			
		Gold loan (accepted in Jan. '55)	10.0			
Estimated minimum total for Finland			20.0	0.0	0.0	0.0
Iceland	Czech.	Three small hydroelectric units; Czech. to provide power and transformer stations		1.6		
	Czech., GDR, USSR	Cement plant; each offered to provide equipment; capacity 250 tons per day				2.0 (est)
Estimated minimum total for Iceland			0.0	1.6	0.0	2.0
Turkey	GDR	Cement plant		2.0 (est)		
		Porcelain factory				1.3
	Hungary	Flour mill; pneumatic; daily capacity, 50 tons		U		

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Appendix A (Cont'd)

Recipient	Bloc Country	Projects	Contracts [a]		Offers [a]	
			Known Credits	Possible Credits	Known Credits	Possible Credits
Europe						
Turkey (Cont'd)	USSR	Textile plant		U		
	Czech.	150 RR passenger cars		5.0		
Estimated minimum total for Turkey [b]			0.0	7.0	0.0	1.3
Yugoslavia	USSR	Line of credit in gold or freely convertible currency	30.0			
		Line of credit for Soviet raw materials	54.0			
		Line of credit for capital goods	120.0			
		Development of copper mines at MAJDANPEK				U
		The following projects have been specified as definitely planned or in progress, using Soviet equipment and technical aid:				
		Nuclear reactor				
		Nitric mineral fertilizer plant (annual capacity of 100,000 tons)				
		Superphosphate plant (annual capacity of 250,000 tons superphosphate and 120,000 sulphuric acid)				
		Thermoelectric power station (100,000 KW)				
		Three lead and zinc mines reconstruction and expansion				
		Jet aircraft factory				
	Hungary	Train manufacturing plant				U
		Grain elevator construction; technicians and equipment — total capacity 30,000 tons	U			
	Czech.	Line of credit for capital goods	75.0			
		Grain elevator construction equipment; total capacity 30,000 tons	U			
	Poland	Line of credit for capital equipment	20.0			
		Railway rolling stock				

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Appendix A (Cont'd)

Recipient	Bloc Country	Projects	Contracts [a]		Offers [a]	
			Known Credits	Possible Credits	Known Credits	Possible Credits
Europe						
Yugoslavia (Cont'd)	Poland (Cont'd)	Machines for foodstuffs industry				
		Mining equipment				
Estimated minimum total for Yugoslavia [b]			299.0	0.0	0.0	U
Estimated minimum total for Europe [b]			319.0	8.6	0.0	3.3
Latin America						
Argentina	USSR	Line of credit	4.0			
		Complete railroad electrification system and electric locomotives				U
	GDR	Refrigeration plant; preparation of plants and possibly provision of equipment		U		
	Czech.	Line of credit	15.0			
		Following projects reportedly contracted for:				
		Skoda auto and truck plant				
		Distillery: capacity of 66,000 gallons per day	U			
		Arms (planes, tanks, artillery)				U
Estimated minimum total for Argentina [b]			19.0	U	0.0	U
Bolivia	Czech.	Shoe manufacturing plant		U		
Estimated minimum total for Bolivia			0.0	U	0.0	0.0
Brazil	Czech.	Shoe manufacturing plant		U		
		Arms				U
	Poland	Food products mfg. plant (such as macaroni and yeast)				U
		Sugar mill				U
		Complete installations of textile machinery				U
		Machine tools, petroleum exploration equipment, mining equipment, and trucks				U
	GDR	Complete plants and trained personnel				U
Estimated minimum total for Brazil			0.0	U	0.0	U

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Appendix A (Cont'd)

Recipient	Bloc Country	Projects	Contracts [a]		Offers [a]	
			Known Credits	Possible Credits	Known Credits	Possible Credits
Latin America						
Mexico	GDR	Plastics plant construction				U
	USSR	Tractor factory equipment and tractor parts				U
Estimated minimum total for Mexico			0.0	0.0	0.0	U
Uruguay	USSR	Electrification systems for railroads and electric locomotives (supervised by Soviet technicians)				U
Estimated minimum total for Uruguay			0.0	0.0	0.0	U
Estimated minimum total for Latin America [b]			19.0	U	0.0	U
Africa						
Ethiopia	Czech.	Sugar refinery			1.5	
	USSR	Hospital; equipped and staffed by Soviets				U
Estimated minimum total for Ethiopia			0.0	0.0	1.5	U
Estimated minimum total for Africa [b]			0.0	0.0	1.5	U

Footnotes to Appendix A (gross)

[a] Values have been rounded to the nearest tenth of a million. Where estimates of value were made the abbreviation (est) appears. Where values are unknown and there was insufficient data on which to base an estimate the letter U appears.

[b] Does not include those projects the values of which are unknown.

[c] Total cost of $65 million to be shared by Syria, Jordan, and Saudi Arabia.

[d] Includes only 1/3 of RR cost.

[e] No amount is included for the RR because of current Saudi Arabian opposition to Soviet Bloc technicians and engineers. Items, therefore, do not add to total.

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